

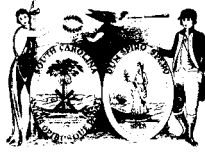
SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

COLUMBIA, SOUTH CAROLINA

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2004

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

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STATE AUDITOR

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October 13, 2004

The Honorable Mark Sanford, Governor
and
Members of the Board of Commissioners
South Carolina State Housing Finance and Development Authority
Columbia, South Carolina

This report on the audit of the basic financial statements and the additional reports required by OMB Circular A-133 of the South Carolina State Housing Finance and Development Authority for the fiscal year ended June 30, 2004, was issued by DeLoach & Williamson, L.L.P., Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,


Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

COLUMBIA, SOUTH CAROLINA

AUDITED FINANCIAL STATEMENTS

TABLE OF CONTENTS

Report of Independent Auditors	1
Management's Discussion and Analysis (Required Supplementary Information).....	3
 Financial Statements	
Authority-Wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities.....	9
Fund Financial Statements:	
Balance Sheet-Governmental Funds.....	10
Statement of Revenue, Expenditures and Changes in Fund Balances - Governmental Funds	11
Statement of Net Assets-Proprietary Funds.....	12
Statement of Revenue, Expenditures and Changes in Net Assets - Proprietary Funds	15
Statement of Cash Flows-Proprietary Funds	17
Notes to Financial Statements.....	20
 Other Financial Information:	
Schedule of Expenditures of Federal Awards.....	65
Note to Schedule of Expenditures of Federal Awards.....	66
Report on Compliance and Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	67
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133.....	69
Schedule of Findings and Questioned Costs.....	71

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REPORT OF INDEPENDENT AUDITORS

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the South Carolina State Housing Finance and Development Authority and its blended component unit (the "Authority") as of and for the year ended June 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in *Note 1* to the financial statements, the accompanying financial statements of the Authority are intended to present the financial position, results of operations, and the cash flows of only the portion of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information that are attributable to the transactions of the Authority, an agency of the State of South Carolina, and do not include any other agencies, institutions, divisions, instrumentalities or any other component units of the State of South Carolina. They do not purport to, and do not, present fairly the financial position of the State of South Carolina as of June 30, 2004 and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Authority as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We also audited the adjustments described in *Note 18* that were applied to restate the June 30, 2003 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

The Management's Discussion and Analysis on pages 3 through 6 is not a required part of the financial statements is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements of the Authority taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Control Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 19, 2004, on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the result of our audit.

Rebecca E. Williamson, C.C.P.

September 19, 2004

South Carolina State Housing Finance and Development Authority

Management's Discussion and Analysis

As management of the South Carolina State Housing Finance and Development Authority, (the "Authority") we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended June 30, 2004.

Financial Highlights

- Net assets of the Authority increased \$9,046,373 to \$235,028,384 in its proprietary funds.
- The governmental fund decreased to \$22,628,093.
- HUD assistance increased \$5,708,926 to \$98,131,881. This increase is due to an increase in the Contract Administration Program.
- The Authority redeemed \$54,250,000 in bonds prior to their maturity and issued bonds in the amount of \$50,000,000.
- For this fiscal year ending June 30, 2004, the Authority purchased 1037 new loans for \$69,784,773 in its enterprise fund and 6 new loans for a total of \$366,913 in the governmental fund. In addition to new loans, 1477 loans in the amount of \$82,309,639 paid off early.
- Bonds Outstanding decreased \$45,160,000 to \$512,945,000.

Overview of the Financial Statements

The financial statements consist of three parts – management's discussion and analysis, the basic financial statements and supplementary information. The basic financial statements include two kinds of statements that present different views of the Authority's finances.

- The first two statements are Authority-wide financial statements that provide information about the Authority's overall financial position and results. These statements, which are presented on an accrual basis, consist of the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets includes all of the Authority's assets and liabilities. All of the current year's revenue and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. Most of the Authority's activities are business and are reported in proprietary funds.
- The remaining statements are fund financial statements of the Authority's proprietary funds which operate similar to business activities and for which the Authority follows an accrual basis of accounting and the governmental fund which is a special revenue fund.
- The basic financial statements also include a "Notes to Financial Statements" section that explains the information in the Authority-wide and fund financial statements. The notes also provide a more detailed explanation of data and significant accounting procedures and policies.

The remainder of this overview section explains the structure and contents of each of these statements. The prior year results referred to throughout this section are for comparison purposes only. Any adjustments made have been reported in the notes to the financial statements. If adjustments were made, they would have a minimal effect on the comparisons.

Fund Financial Statements

The fund financial statements provide more detailed information about the Authority's most significant funds and not the Authority as a whole. The Authority has two kinds of funds:

Governmental Fund-The Authority has one governmental (special revenue) fund. The Authority is the administrator of this special revenue fund. The revenues are collected by the South Carolina Department of Revenue and remitted to the Authority for the purpose of making grants and loans for affordable housing projects and developments. These fund statements focus on how cash and other financial assets flowing into the fund have been used.

Proprietary Fund-The Authority's primary activities are in its proprietary funds, in which activities are accounted for in a manner similar to businesses operating in the private sector. Funding has primarily arisen through the issuances of bonds, the proceeds of which are used to make various types of loans to finance low and moderate-income housing. HUD contracts are accounted for in the proprietary fund since the Authority receives fees to administer various HUD programs. The net assets of these programs represent accumulated earnings since their inception and are generally for program purposes.

Financial Analysis of the Authority as a Whole

Net Assets. The combined net assets of the Authority increased by \$7,676,356. The following table summarizes the financial position for the Authority as of and for the years ended June 30, 2004 and 2003.

	Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Total current assets	\$ 15,528,062	\$ 16,897,644	\$ 90,471,909	\$ 92,825,651	\$ 105,999,971	\$ 109,723,295
Capital assets	-	-	65,206	73,325	65,206	73,325
Non-current assets	7,101,587	7,105,626	678,063,624	713,041,029	685,165,211	720,146,655
Total assets	<u>\$ 22,629,649</u>	<u>\$ 24,003,270</u>	<u>\$ 768,600,739</u>	<u>\$ 805,940,005</u>	<u>\$ 791,230,388</u>	<u>\$ 829,943,275</u>
Total current liabilities	\$ 1,556	\$ 5,160	\$ 30,468,009	\$ 76,341,499	\$ 30,469,565	\$ 76,346,659
Total long-term liabilities	-	-	503,104,346	503,616,495	503,104,346	503,616,495
Total liabilities	<u>\$ 1,556</u>	<u>\$ 5,160</u>	<u>\$ 533,572,355</u>	<u>\$ 579,957,994</u>	<u>\$ 533,573,911</u>	<u>\$ 579,963,154</u>
Fund equity in capital assets	\$ -	\$ -	\$ 65,206	\$ 73,325	\$ 65,206	\$ 73,325
Fund equity-restricted	22,628,093	23,998,110	233,695,042	224,959,973	256,323,135	248,958,083
Fund equity-unrestricted	-	-	1,268,136	948,713	1,268,136	948,713
Total net assets	<u>\$ 22,628,093</u>	<u>\$ 23,998,110</u>	<u>\$ 235,028,384</u>	<u>\$ 225,982,011</u>	<u>\$ 257,656,477</u>	<u>\$ 249,980,121</u>

Net assets of the Authority's governmental funds decreased \$1,370,017 to \$22,628,093. The Housing Trust Fund Act enacted by the General Assembly in 1992 restricts net assets of the fund. The Authority receives funding from a percentage of the documentary stamp tax on the instruments conveying real property to finance in whole or in part, affordable housing projects and/or developments eligible under the Housing Trust Fund Act.

Net assets of the Authority's proprietary fund increased \$9,046,373 to \$235,028,384. The increase primarily resulted from the increase in early pay-off of loans by \$8,201,162

Statement of Activities: The Statement of Activities shows the sources of the Authority's changes in net assets as they progress through the various programs and functions. The Housing Trust Fund is shown as government activities and all other programs are shown as business-type activities. The business-type activities include the Single-Family Loan Programs, the Multi-Family Loan Program and other activities including federal assistance, tax credit, monitoring and other activities which are recorded in the Authority's Administrative program.

A condensed Statement of Activities for the last two fiscal years is shown below.

	Governmental Activities		Business-Type Activities		Totals	
	2004	2003	2004	2003	2004	2003
Revenue:						
Charges for services	\$ -	\$ -	\$ 40,729,056	\$ 45,564,074	\$ 40,729,056	\$ 45,564,074
Program Investment						
Income	323,846	299,326	6,268,177	5,764,701	6,592,023	6,784,683
Tax/Grant/Federal						
Revenue	9,996,611	7,568,750	102,316,885	96,134,057	112,313,496	103,702,807
Total revenue	10,320,457	7,868,076	149,314,118	147,462,832	159,634,575	155,330,908
Expenses	6,107,474	3,776,601	139,703,406	131,616,250	145,810,880	135,392,851
Transfer to General						
Fund of the State	5,583,000	892,571	-	1,617,784	5,583,000	2,510,355
Extraordinary Item:						
Loss on early						
extinguishment						
of debt	-	-	564,339	538,286	564,339	538,286
Increase in net assets	<u>\$ (1,370,017)</u>	<u>\$ 3,198,904</u>	<u>\$ 9,046,373</u>	<u>\$ 13,690,512</u>	<u>\$ 7,676,356</u>	<u>\$ 16,889,416</u>

Revenues of the Authority's governmental activities were derived from a documentary stamp tax and investment income. All expenditures were grants. Revenues of the Authority's business-type activities were primarily from charges for services (\$40,729,056) and program investment (\$6,268,177). Charges for services consist primarily of interest income on loans, HUD administrative fees, tax credit application fees and various other small fees, such as monitoring and servicing fees. Program investment income came primarily from the bond programs and the income is restricted to those programs.

Direct expenses of the Authority's business-type activities consist of two major types-housing assistance payments and bond interest. All administrative expenses were incurred in the Authority's general operating program. Program revenue adequately covers all expenses of the Authority. Program revenue exceeded expenses by \$9,046,373. Net assets of the Authority increased from the previous year by \$7,676,356.

Debt Administration

The Authority's total liabilities decreased \$46,389,243 to \$533,573,911. Long-term debt decreased \$512,149 to \$503,616,495. The long-term debt consists of bonds payable at \$502,785,748 and accrued compensated absences in the amount of \$318,598.

Economic Factors

The Authority's financial condition remains consistent in comparison with prior years. The increase in net assets is generally in the same range as previous years. In July 2004, the Authority issued Mortgage Revenue Bonds in the amount of \$100,000,000 and will refund bonds in the amount of \$5,740,000 in January 2005.

Requests for Information

This financial report is designed to provide a general overview of the South Carolina State Housing Finance and Development Authority finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the following:

South Carolina State Housing Finance and Development Authority
Finance Division
300-C Outlet Pointe Boulevard
Columbia, South Carolina 29210

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS

JUNE 30, 2004

	Governmental Activities	Business Type Activities	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 13,229,135	\$ 15,414,539	\$ 28,643,674
Restricted assets:			
Cash and cash equivalents	-	29,317,540	29,317,540
Accounts receivable:			
Due from State Agency	2,108,858	-	2,108,858
Due from grantor	-	3,893,862	3,893,862
Other	-	99,706	99,706
Loans receivable	177,125	41,733,406	41,910,531
Accrued interest receivable:			
Loans	12,944	8,925	21,869
Deposits and investments	-	3,931	3,931
Total current assets	<u>15,528,062</u>	<u>90,471,909</u>	<u>105,999,971</u>
Non-current assets:			
Investments	-	599,794	599,794
Loans receivable, net of current portion and unamortized discounts	7,101,587	22,197,216	29,298,803
Restricted assets:			
Cash and cash equivalents	-	183,693,707	183,693,707
Accounts receivable	-	309,739	309,739
Investments	-	3,997,910	3,997,910
Loans receivable, net of unamortized discounts	-	458,278,112	458,278,112
Accrued interest receivable:			
Deposits and investments	-	578,032	578,032
Loans	-	4,336,253	4,336,253
Unamortized bond issuance costs	-	4,072,861	4,072,861
Capital assets, net of accumulated depreciation	-	65,206	65,206
Total noncurrent assets	<u>7,101,587</u>	<u>678,128,830</u>	<u>685,230,417</u>
Total assets	<u>22,629,649</u>	<u>768,600,739</u>	<u>791,230,388</u>

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS

(CONTINUED)

	Governmental Activities	Business Type Activities	Totals
Liabilities			
Current liabilities:			
Liabilities payable from restricted assets:			
Bonds payable, net of unamortized premiums and discounts and deferred losses on refundings	-	7,910,000	7,910,000
Accrued interest payable on bonds	-	13,763,422	13,763,422
Mortgage escrows	-	7,168,382	7,168,382
Other	-	475,736	475,736
Total liabilities payable from restricted current assets	-	29,317,540	29,317,540
Accrued compensated absences	-	314,307	314,307
Accrued salaries and related payroll expenses	-	510,839	510,839
Mortgage escrows	1,556	-	1,556
Due to grantor	-	177,297	177,297
Other liabilities	-	148,026	148,026
Total current liabilities	1,556	30,468,009	30,469,565
Non-current liabilities:			
Accrued compensated absences, net of current portion	-	318,598	318,598
Bonds payable, net of current portion on unamortized premiums and discounts and deferral losses on refundings	-	502,785,748	502,785,748
Total noncurrent liabilities	-	503,104,346	503,104,346
Total liabilities	1,556	533,572,355	533,573,911
Net Assets			
Invested in capital assets	-	65,206	65,206
Restricted for:			
Debt service	-	175,103,358	175,103,358
Bond reserves	22,628,093	11,296,154	33,924,247
Special programs	-	47,295,530	47,295,530
Unrestricted	-	1,268,136	1,268,136
Total net assets	\$ 22,628,093	\$ 235,028,384	\$ 257,656,477

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

	Expenses	Program Revenue		Net (Expenses) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Functions/Programs						
Governmental activities:						
Housing Trust Fund	\$ 6,107,474	\$ -	\$ 323,846	\$ (5,783,628)	\$ -	\$ (5,783,628)
Total governmental activities	6,107,474	-	323,846	(5,783,628)	-	(5,783,628)
Business-type activities:						
Administrative	9,479,677	8,194,951	-	-	(1,284,726)	(1,284,726)
Single-Family Mortgage Loan Programs	30,276,742	30,439,593	6,147,836	-	6,310,687	6,310,687
Multi-Family Mortgage Loan Programs	1,100,217	1,516,952	116,935	-	533,670	533,670
Multi-Family Federal Assistance Programs	98,131,881	-	102,316,885	-	4,185,004	4,185,004
Program Fund Programs	667,452	486,888	59,172	-	(121,392)	(121,392)
State Housing Corporation	47,437	-	34,906	-	(12,531)	(12,531)
Total business-type activities	139,703,406	40,638,384	108,675,734	-	9,610,712	9,610,712
Total functions/programs	<u>\$ 145,810,880</u>	<u>\$ 40,638,384</u>	<u>\$ 108,999,580</u>	(5,783,628)	9,610,712	3,827,084
General revenue:						
Documentary stamp taxes				9,996,611	-	9,996,611
Transfer to General Fund of the State				(5,583,000)	-	(5,583,000)
Extraordinary item:						
Loss on early extinguishment of debt				-	(564,339)	(564,339)
Total general revenue, transfers, and extraordinary items				4,413,611	(564,339)	3,849,272
Change in net assets				(1,370,017)	9,046,373	7,676,356
Net assets, at beginning of year, as restated				23,998,110	225,982,011	249,980,121
Net assets, at end of year				<u>\$ 22,628,093</u>	<u>\$ 235,028,384</u>	<u>\$ 257,656,477</u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2004

	Housing Trust Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 13,229,135
Accounts receivable:	
Due from State Agency	2,108,858
Loans receivable	177,125
Accrued interest receivable:	
Loans	12,944
Total current assets	<u>15,528,062</u>
Non-current assets:	
Loans receivable, net of current portion	<u>7,101,587</u>
Total non-current assets	<u>7,101,587</u>
Total assets	<u><u>\$ 22,629,649</u></u>
Liabilities and Fund Balance	
Current liabilities:	
Mortgage escrows	<u>\$ 1,556</u>
Total current liabilities	<u>1,556</u>
Fund Balance:	
Reserved for housing projects and development	<u>22,628,093</u>
Total fund balance	<u>22,628,093</u>
Total liabilities and fund balance	<u><u>\$ 22,629,649</u></u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF REVENUE, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2004

	Housing Trust Fund
Revenue	
Documentary stamp taxes	\$ 9,996,611
Interest on loans	170,608
Interest on deposits and investments	153,238
Total revenue	<u>10,320,457</u>
Expenditures:	
Grants for housing trust programs	<u>6,107,474</u>
Total expenditures	<u>6,107,474</u>
Excess of revenue over expenditures	4,212,983
Other Financing Sources (Uses)	
Transfer to General Fund of the State	<u>(5,583,000)</u>
Total other financing sources (uses)	<u>(5,583,000)</u>
Net change in fund balances	(1,370,017)
Fund balance, at beginning of year	<u>23,998,110</u>
Fund balance, at end of year	<u><u>\$ 22,628,093</u></u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

JUNE 30, 2004

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Blended Component Unit State Housing Corporation	Eliminations	Totals
Assets							
Current assets:							
Cash and cash equivalents	\$ 7,785,542	\$ -	\$ -	\$ 7,628,997	\$ -	\$ -	\$ 15,414,539
Restricted assets:							
Cash and cash equivalents	-	28,041,322	1,274,430	1,788	-	-	29,317,540
Accounts receivable:							
Due from grantor	3,893,862	-	-	-	-	-	3,893,862
Other	92,650	-	-	7,056	-	-	99,706
Loans receivable	597,908	40,766,582	344,114	24,802	-	-	41,733,406
Accrued interest receivable:							
Loans	-	-	-	8,925	-	-	8,925
Deposits and investments	-	-	-	3,931	-	-	3,931
Total current assets	12,369,962	68,807,904	1,618,544	7,675,499	-	-	90,471,909
Non-current assets:							
Investments	-	-	-	599,794	-	-	599,794
Loans receivable, net of current portion and unamortized discounts	22,197,216	-	-	-	-	-	22,197,216
Restricted assets:							
Cash and cash equivalents	-	182,251,686	1,442,021	-	-	-	183,693,707
Accounts receivable	-	-	309,739	-	-	-	309,739
Investments	-	3,766,291	231,619	-	-	-	3,997,910
Loans receivable, net of unamortized discounts	-	436,130,071	14,955,991	7,192,050	-	-	458,278,112
Accrued interest receivable:							
Investments	-	541,937	36,095	-	-	-	578,032
Loans	-	4,188,246	148,007	-	-	-	4,336,253
Unamortized bond issuance costs	-	3,956,468	116,393	-	-	-	4,072,861
Capital assets, net of accumulated depreciation	65,206	-	-	-	-	-	65,206
Total noncurrent assets	22,262,422	630,834,699	17,239,865	7,791,844	-	-	678,128,830
Total assets	34,632,384	699,642,603	18,858,409	15,467,343	-	-	768,600,739

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

(CONTINUED)

					Blended Component Unit State Housing Corporation	Eliminations	Totals
	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program			
Liabilities							
Current liabilities:							
Liabilities payable from restricted assets:							
Bonds payable	-	7,635,000	275,000	-	-	-	7,910,000
Accrued interest payable on bonds	-	13,724,080	39,342	-	-	-	13,763,422
Mortgage escrows	-	6,208,132	959,066	1,184	-	-	7,168,382
Other	-	474,110	1,022	604	-	-	475,736
Total liabilities payable from restricted assets	-	28,041,322	1,274,430	1,788	-	-	29,317,540
Accrued compensated absences	314,307	-	-	-	-	-	314,307
Accrued salaries and related payroll expenses	510,839	-	-	-	-	-	510,839
Other accrued liabilities	148,026	-	-	-	-	-	148,026
Due to grantor	177,297	-	-	-	-	-	177,297
Total current liabilities	1,150,469	28,041,322	1,274,430	1,788	-	-	30,468,009
Non-current liabilities:							
Accrued compensated absences, net of current portion	318,598	-	-	-	-	-	318,598
Bonds payable, net of current portion and unamortized premiums and discounts and deferred losses on refundings	-	492,312,665	10,473,083	-	-	-	502,785,748
Total noncurrent liabilities	318,598	492,312,665	10,473,083	-	-	-	503,104,346
Total liabilities	1,469,067	520,353,987	11,747,513	1,788	-	-	533,572,355

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

(CONTINUED)

					Blended Component Unit State Housing Corporation	Eliminations	Totals
	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program			
Net Assets							
Invested in capital assets	65,206	-	-	-	-	-	65,206
Restricted for:							
Debt service	-	168,224,081	6,879,277	-	-	-	175,103,358
Bond reserves	-	11,064,535	231,619	-	-	-	11,296,154
Special programs	31,829,975	-	-	15,465,555			47,295,530
Unrestricted	1,268,136	-	-	-	-	-	1,268,136
Total net assets	<u>\$ 33,163,317</u>	<u>\$ 179,288,616</u>	<u>\$ 7,110,896</u>	<u>\$ 15,465,555</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 235,028,384</u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

YEAR ENDED JUNE 30, 2004

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Blended Component Unit State Housing Corporation	Totals
Operating Revenue						
Pledged revenue:						
Interest and other charges on loans	\$ 379,631	\$ 30,439,593	\$ 1,510,134	\$ 264,386	\$ 34,906	\$ 32,628,650
Interest on deposits and investments	-	6,092,070	116,935	59,172	-	6,268,177
Other revenue:						
Bond premium amortization	-	55,766	-	-	-	55,766
Administrative fees and other	7,815,320		6,818	222,502	-	8,044,640
Total operating revenue	8,194,951	36,587,429	1,633,887	546,060	34,906	46,997,233
Operating Expenses						
Bond interest	-	28,489,724	925,094	-	-	29,414,818
Program services	-	1,299,381	163,094	667,452	30,093	2,160,020
General and administrative	9,445,620	-	-	-	-	9,445,620
Bond issuance cost amortization	-	271,283	12,029	-	-	283,312
Depreciation of capital assets	34,910					34,910
Note interest expense	-	-	-	-	17,344	17,344
Write-off of furniture and equipment	(853)	-	-	-	-	(853)
Other expenses	-	216,354	-	-	-	216,354
Total operating expenses	9,479,677	30,276,742	1,100,217	667,452	47,437	41,571,525
Operating Income (Loss)	(1,284,726)	6,310,687	533,670	(121,392)	(12,531)	5,425,708
NonOperating Revenue (Expenses)						
Housing assistance contributions earned	102,316,885	-	-	-	-	102,316,885
Housing assistance payments	(98,131,881)	-	-	-	-	(98,131,881)
Total nonoperating revenue (expenses)	4,185,004	-	-	-	-	4,185,004

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

(CONTINUED)

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Blended Component Unit State Housing Corporation	Totals
Income Before Operating Transfers and Extraordinary Items	2,900,278	6,310,687	533,670	(121,392)	(12,531)	9,610,712
Transfers						
Transfers from (to) other programs - net	3,785,763	(3,829,046)	(276,275)	290,849	28,709	-
Total transfers	3,785,763	(3,829,046)	(276,275)	290,849	28,709	-
Income (Loss) Before Extraordinary Item	6,686,041	2,481,641	257,395	169,457	16,178	9,610,712
Extraordinary Item						
Loss on early extinguishments of debt	-	(446,503)	(117,836)	-	-	(564,339)
(Increase) decrease in net assets	6,686,041	2,035,138	139,559	169,457	16,178	9,046,373
Net assets, at beginning of year, as restated	26,477,276	177,253,478	6,971,337	15,296,098	(16,178)	225,982,011
Net assets, at end of year	<u>\$ 33,163,317</u>	<u>\$ 179,288,616</u>	<u>\$ 7,110,896</u>	<u>\$ 15,465,555</u>	<u>\$ -</u>	<u>\$ 235,028,384</u>

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

JUNE 30, 2004

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Blended Component Unit State Housing Corporation	Totals
Cash Flows From Operating Activities						
Receipt of loan payments	\$ 518,352	\$ 115,744,908	\$ 6,285,038	\$ 6,277,030	\$ -	\$ 128,825,328
Purchase/origination of new loans	(3,535,978)	(66,933,536)	-	(494,967)	-	(70,964,481)
Receipts from HUD	(1,939,381)	-	-	-	-	(1,939,381)
Other receipts	8,194,951	-	-	-	-	8,194,951
Payments to employees	(4,886,628)	-	-	-	-	(4,886,628)
Payments to vendors	(4,517,533)	(1,059,865)	(164,832)	(8,649)	(12,089)	(5,762,968)
Payments to customers	-	-	(1,584,713)	(402,127)	-	(1,986,840)
Net cash flows provided (used) for operating activities	(6,166,217)	47,751,507	4,535,493	5,371,287	(12,089)	51,479,981
Cash Flows from Capital Financing Activities						
Purchase of equipment	(25,938)	-	-	-	-	(25,938)
Net cash flows provided (used) for operating activities	(25,938)	-	-	-	-	(25,938)
Cash Flows from Noncapital Financing Activities						
Transfers from other programs	3,814,286	-	-	291,035	-	4,105,321
Transfers to other programs	-	(3,829,046)	(276,275)	-	-	(4,105,321)
Receipts from HUD	102,316,885	-	-	-	-	102,316,885
Payments of housing assistance	(98,131,881)	-	-	-	-	(98,131,881)
Proceeds from sale of bonds	-	50,000,000	-	-	-	50,000,000
Principal payments on bonds payable	-	(40,580,000)	(330,000)	-	-	(40,910,000)
Interest payments on bonds payable	-	(28,947,572)	(1,020,729)	-	-	(29,968,301)
Payment on bond issuance costs	-	(574,076)	-	-	-	(574,076)
Repayment of capital debt	-	-	-	-	(4,912,385)	(4,912,385)
Early retirement of bonds payable	-	(48,765,000)	(5,485,000)	-	-	(54,250,000)
Net cash provided (used) for noncapital activities	7,999,290	(72,695,694)	(7,112,004)	291,035	(4,912,385)	(76,429,758)
Cash Flows from Investing Activities						
Income on deposits and investments	-	6,550,596	101,623	121,100	34,906	6,808,225
Cash flows from investing activities	-	6,550,596	101,623	121,100	34,906	6,808,225
Net increase (decrease) in cash and cash equivalents	1,807,135	(18,393,591)	(2,474,888)	5,783,422	(4,889,568)	(18,167,490)
Cash and cash equivalents, beginning of year	5,978,407	228,686,599	5,191,339	1,847,363	4,889,568	246,593,276
Cash and cash equivalents, end of year	\$ 7,785,542	\$ 210,293,008	\$ 2,716,451	\$ 7,630,785	\$ -	\$ 228,425,786

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

(CONTINUED)

	General Operating	Single-Family Finance Programs	Multi-Family Finance Programs	Program	Blended Component Unit State Housing Corporation	Totals
Reconciliation of Net Operating Income (Loss) to Net Cash Flows Provided by (used for) Operating Activities:						
Net operating income (loss)	\$ (1,284,726)	\$ 6,310,687	\$ 533,670	\$ (121,392)	\$ (12,531)	\$ 5,425,708
Adjustments to reconcile net operating income (loss) to net cash flows provided by (used for) operating activities:						
Depreciation	34,910	-	-	-	-	34,910
Bond premium amortization	(853)	(38,511)	-	-	-	(39,364)
Bond issuance cost amortization	-	271,283	12,029	-	-	283,312
Bonds interest expense reclassified to noncapital financing activities	-	28,489,724	925,094	-	-	29,414,818
Income on deposits and investments reclassified to investing activities	-	(6,379,163)	(116,935)	(59,358)	(8,906)	(8,906)
Mortgage loan discounts amortization	-	(1,146)	-	-	-	(1,146)
Mortgage loan principal adjustment	-	10,624	-	-	-	10,624
Receipt of loan principal payments	518,352	85,596,402	3,304,734	5,983,769	-	95,403,257
Purchase/origination of new loans	(3,535,978)	(66,933,536)	-	(494,967)	-	(70,964,481)
Change in assets and liabilities:						
Increase (decrease) in accounts receivable	(1,203,242)	-	-	93,884	68,004	(1,041,354)
Increase (decrease) in accounts payable, accrued expenses and due to grantor	(694,680)	-	-	-	-	(694,680)
Increase (decrease) in mortgage escrows	-	109,695	(170,565)	583	-	(60,287)
Increase (decrease) in other liabilities	-	289,769	(339)	(60,728)	(23,750)	204,952
Increase (decrease) in accrued interest receivable-loans	-	25,679	47,805	29,496	-	102,980
Total adjustments	(4,881,491)	41,440,820	4,001,823	5,492,679	442	46,054,273
Net cash provided by (used for) operating activities	\$ (6,166,217)	\$ 47,751,507	\$ 4,535,493	\$ 5,371,287	\$ (12,089)	\$ 51,479,981
Supplemental Information Operating Activities						
a. Included in operating income is interest and other charges collected on loans receivable.						
General Operating Fund						379,631
Single Family Finance Programs Fund						30,439,593
Multi-Family Finance Program Fund						1,510,134
State Housing Corporation						264,386
						34,906
Total						\$ 32,628,650

SOUTH CAROLINA STATE HOUSING FINANCE
AND DEVELOPMENT AUTHORITY

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

(CONTINUED)

Noncash Investing

- a. The increase in fair value of investments for the year ended June 30, 2004 that is included in these financial statements in "investment income" follows:

Multi-Family Finance Program Fund	\$ (52,237)
Single Family Finance Programs	<u>(372,753)</u>
Total	<u><u>\$ (424,990)</u></u>

Noncash Noncapital Financing Activities

- a. Interest payments on bonds do not include \$107,219 amortization of bond discounts and \$194,027 of amortization of deferred losses on refundings of debt that were included in operating expense as bond interest.

	<u>Bond Discounts</u>	<u>Deferred Losses on Refundings</u>
Single Family Finance Programs Fund	\$ 39,485	\$ 194,027
Multi-Family Finance Program Fund	<u>67,734</u>	<u>-</u>
Total	<u><u>\$ 107,219</u></u>	<u><u>\$ 194,027</u></u>

- b. Unamortized bond discounts of \$105,819 and unamortized bond issuance costs of \$340,684 were written off as an extraordinary loss in the Single Family Finance Programs Fund.
- c. Unamortized bond discounts of \$56,418 and unamortized bond issuance cost of \$61,418 were written off as an extraordinary loss in the Multi-Family Finance Program Fund.

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

1. Summary of Significant Accounting Policies

The financial statements of South Carolina State Housing Finance and Development Authority (the Authority) were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental entities. The Government Accounting Standards Board (GASB) is the accepted standard-setting body in the United States of America for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

Reporting Entity

The Authority, a primary entity, is part of the primary government of the State of South Carolina and its funds are included in the Comprehensive Annual Financial Report of the State of South Carolina.

The Authority is a public body, corporate and politic, and a reporting entity of the primary government of the State of South Carolina. The Authority was established pursuant to Section 31-13-20, an Amendment to the Housing Authorities, a law of South Carolina. The laws of the State and policies and procedures specified by the State for State agencies are applicable to the Authority. The powers of the Authority were expanded through the passage of the South Carolina State Housing Act of 1977 (31-13-10 through 330 and 31-3-1510), and as amended in 1982 (31-13-70), 1983 (31-13-80), 1986 (31-1-340), 1988 (31-13-50) and 1990 (31-13-200).

The Act empowers the Authority to enter into grants and contracts with the federal government and to issue bonds and notes. In 1992, the General Assembly amended Chapter 13, Title 13 by adding Article 4 which enacts the Housing Trust Fund Act of 1992.

The Authority's Board of Commissioners, whose members are appointed by the Governor, is the governing body of the Authority. The Board administers, has jurisdiction over, and is responsible for the management of the Authority.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. **Summary of Significant Accounting Policies (Continued)**

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by accounting principles generally accepted in the United States of America, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn, component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The financial reporting entity includes the Authority (a primary entity). The Authority has one blended component unit in the State Housing Corporation (the "Corporation"); the Corporation has determined it has no component units.

A primary entity is financially accountable if it appoints a voting majority of the organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

1. Determines its budget without another government having the authority to approve and modify that budget.
2. Levies taxes or set rates or charges without approval by another government.
3. Issues bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the Authority has determined it is not a component of another entity. The financial statements report the activity of the Authority and its blended component unit.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. **Summary of Significant Accounting Policies (Continued)**

As required by accounting principles generally accepted in the United States of America, these financial statements present the government and its component unit, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations and so data from these units are combined with data of the primary government.

The following is a description of the blended component unit:

The Corporation was formed as a separate not-for-profit organization. The responsibility of the Corporation is to provide affordable housing opportunities for low and very-low income households by cooperating with governmental and not-for-profit housing providers. The Corporation shall not participate in the competitive programs of the Authority, including the Low Income Housing Tax Credit, South Carolina Housing Trust Fund, and HOME Programs.

The accompanying financial statements present the financial position, results of operations, and cash flows of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the Authority. The Mortgage Revenue Bonds are special obligations of the Authority and are not a debt, grant or loan of the State of South Carolina nor any political subdivision of the State, and neither the State of South Carolina or any political subdivision there of is liable. The bonds are secured by and payable solely from the monies, income, and receipts of the Authority pledged for the payment thereof under the Indentures. Payment of the principal or redemption price of, and interest on, all bonds is secured ratably and equally by the proceeds of the bonds, revenue (including scheduled payments of principal and interest on mortgages and repayments of mortgage loans and interest and income received on investments of money held in the funds and accounts), and the right, title, and interest of the Authority in and to the mortgage loans.

The Authority has issued bonds and notes which are insured, secured and/or guaranteed such that the Authority has no liability. These bonds and notes are identical to industrial development bonds. Original issue amounts and the related investments are not included in the financial statements of the Authority.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. **Summary of Significant Accounting Policies (Continued)**

Fund Accounting

Fund Accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the entity and in accordance with directives issued by the governing board.

The Authority's funds are classified into two categories - governmental and proprietary.

Governmental Funds

Governmental funds finance the Authority's governmental functions including the disbursement of restricted monies. The Authority's governmental fund type is a special revenue fund. Expendable assets are assigned to the applicable governmental fund according to the purposes for which they may or must be used; current liabilities are assigned to the fund from which they are to be paid; and the difference between assets and liabilities is fund balance.

The Special Revenue fund accounts for the Housing Trust fund, which was established in May 1992. The Authority receives funding from a percentage of the documentary stamp tax on instruments conveying real property. The Fund is to be used to finance, in whole or in part, affordable housing projects and developments by loans and/or grants or providing matching funds to secure federal funding or other funding.

In accordance with governmental accounting standards, the portions of fund balances that are not available for appropriation and expenditure and/or are legally segregated for a specified use are presented as reserved.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (Continued)

Proprietary Funds

The proprietary funds are used to account for activities similar to those found in the private sector, where the determination of net income is necessary or useful to sound financial administration. Goods or services from activities of the Authority are provided to outside parties and such activities are accounted for in an enterprise fund type of the State of South Carolina. An enterprise fund accounts for activities that are self-sustaining, primarily through user charges or are used when management wants to control or measure costs of services. The Authority's proprietary fund category includes the following enterprise funds:

The General Operating Fund records administrative fees from the U.S. Department of Housing and Urban Development (HUD) programs and the Multi-family Finance Program and other fee type income. These sources of funds as well as operating transfers from other programs are used to defray the general and administrative expenses of the Authority. The general operating fund also accounts for housing assistance contributions earned from HUD and payments made by the Authority to qualified recipients under the HUD programs.

The Single Family Finance Programs Fund accounts for the financing activities of the Authority's 1979 Single Family Mortgage Purchase Bond Indenture, 1982 Homeownership Mortgage Purchase Bond Resolution and 1994 Mortgage Revenue Bonds Indenture. The proceeds of each series of bonds issued under the three programs are used to purchase mortgage loans made to the State's moderate-to-low income citizens who meet Federal and State eligibility requirements. The programs generate income to cover the costs of administration and debt service on the bonds. Excess funds may be transferred to the other programs at the discretion of the Authority.

The Multifamily Finance Programs Fund accounts for the financing activities of the Authority's multi-family residential revenue bond indentures. Mortgages have been purchased covering projects that house low income citizens meeting Federal eligibility requirements. All mortgages under these indentures are insured by the Federal Housing Administration. The programs generate income to cover costs of administration and debt service on the bonds. Excess funds may be transferred to other programs at the discretion of the Authority.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. **Summary of Significant Accounting Policies (Continued)**

The Program Fund accounts for administrative and other miscellaneous type fees not accounted for elsewhere. This fund is used by the Authority to finance special projects or other expenses authorized by the Authority's Board of Commissioners. The Authority's Board of Commissioners designated by resolution \$5,900,000 for special programs effective June 30, 1992. The program fund generates income to cover costs of administration and makes loans to organizations for low-income housing.

State Housing Corporation

The Corporation was formed as a separate not-for-profit organization. The responsibility of the Corporation is to provide affordable housing opportunities for low and very-low income households by cooperating with governmental and not-for-profit housing providers. The Corporation shall not participate in the competitive programs of the Authority, including the Low Income Housing Tax Credit, South Carolina Housing Trust Fund, and HOME Programs. The Corporation was dissolved during fiscal year ending June 30, 2004.

Basis of Accounting and Reporting

All governmental funds are accounted for using a current financial resources measurement focus whereby only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases in net current assets.

Governmental fund revenue and expenditures are recognized on the modified accrual basis of accounting. Revenue and other fund financial resources are recognized in the accounting period in which they become both measurable and available to finance expenditures. For this purpose, the Authority considers funds to be available if they are collected within one year of the end of the current fiscal year. Federal reimbursement type grants are recorded as revenue when the related expenditures are incurred. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund-type operating statements present increases and decreases in net total assets.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. **Summary of Significant Accounting Policies (Continued)**

The Authority recognizes revenue and expenses and the recording of depreciation expense for the enterprise fund-type using the accrual basis of accounting. Revenue and federal reimbursement type grants are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

The accounting policies of the Authority conform to generally accepted accounting principles (GAAP) applicable to its activities as prescribed by the Governmental Accounting Standards Board (GASB), the recognized standard-setting body for GAAP for all state governmental entities. Proprietary fund activities are reported using the accrual basis method of accounting. If measurable, revenue are recognized when earned and expenses when incurred. In accordance with GASB statement 20, the Authority has elected to apply all applicable GASB pronouncements as well as all applicable FASB pronouncements issued on or before November 30, 1989 not in conflict with GASB standards.

Transfers of financial resources among funds are recognized in all affected funds in the period in which the related interfund receivables and payables arise.

The Authority has elected to treat all funds as major and present them in separate columns.

Restricted Assets and Liabilities Payable from Restricted Assets Under Revenue Bond Resolutions

Generally, under the applicable bond indentures, the earnings and receipt of loan receivable payments related to investment and mortgage loan assets in the single family and multi-family finance program funds are required to be used for the related bonds payable debt service payments. Because these assets are generally restricted for this purpose, they have been reflected in the restricted portion of the accompanying statements. Net restricted assets for bond reserves are computed July 1 of each year by a percentage of the then outstanding bond principal in accordance with the bond indenture. Net restricted assets not restricted for the respective bond reserves of the single family and multi-family finance programs are reflected as restricted for debt service in the accompanying statements.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (Continued)

Nonexchange Transactions

Nonexchange transactions involving financial or capital resources are transactions in which the Authority either gives value to another party without directly receiving equal value in exchange or receives value from another party without directly giving equal value in exchange. The types of nonexchange transactions that the Authority engages in is "voluntary nonexchange transactions" related to certain grants and contracts.

Voluntary nonexchange transactions usually involve eligibility requirements that must be met before transactions are recognized. The eligibility requirements can include one or more of the following:

1. The recipient has the characteristics specified by the provider.
2. The recipient has met the time requirements specified by the provider (i.e. the period when the resources are required to be used or the period when use is first permitted has begun or the resources are being maintained intact, as specified by the enabling legislation or provider).
3. The provider offers resources on a reimbursement basis and the recipient has incurred allowable costs under the applicable program.
4. The provider's offer of resources is contingent upon a specified action of the recipient and that action has occurred.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. **Summary of Significant Accounting Policies (Continued)**

Discounts, Premiums, Deferred Losses on Refundings of Debt, Issuance Costs, and Bond Amortization

Bond discounts and premiums are amortized over the terms of the bonds using the bonds outstanding method which results in amortization being computed based on the percentage of bonds retired to the original amount of bonds issued. Costs incurred in connection with the bond issues are deferred and amortized on the straight-line method over the lives of the related issues. The deferred losses on refundings of debt include the call premiums and the unamortized premiums or discounts and issuance costs attributable to the bonds refunded and are amortized over the lives of the refunded issues or the new issues whichever is shorter, using the bonds outstanding method. Amortization of bond discounts and the deferred losses on refunding of debt is included in operating expenses as an addition to interest expense. Amortization of bond premium is included in operating revenue as a separate line item amount. Amortization of bond issuance costs is included in operating expenses as a separate line item amount.

Federally Assisted Program Advances and Fees

In accordance with the terms of contracts between the Authority and the U.S. Department of Housing and Urban Development (HUD), the Authority administers Section 8 Housing Assistance Payments Programs for Existing Housing, New Construction/Substantial Rehabilitation, Contract Administration, Restructuring, Moderate Rehabilitation, Rental Voucher Program and Rental Certificate Program in certain areas of South Carolina. Under these programs, housing assistance payments are made to eligible individuals or to owners of rental housing on behalf of persons of limited income who meet the eligibility requirements.

HUD advances to the Authority sufficient funds to cover the current month's housing assistance payments and the Authority's costs of administration of the subsidy contracts. These administrative fees are recognized as operating revenue when earned in the general operating enterprise fund.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (Continued)

Federally Assisted Program Advances and Fees (Continued)

The Home Investments Partnership Program provides grants to local governments and non-profits to assist private property owners in rehabilitating rental housing for low-income tenants. An administrative fee is drawn from HUD to reimburse the Authority, as well as the local government for administrative costs. These administrative fees are recognized as operating revenue when earned. The funds granted and passed through by the Authority are included in the accompanying financial statements in the general operating enterprise fund.

Cash and Cash Equivalents

The amount with the State's Treasurer, cash in banks and in the financial statements as "cash and cash equivalents" represent cash on deposit in banks, cash on deposit with the State Treasurer, cash invested in various instruments with banks, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool and short term investments not held by the State Treasurer's office and having a maturity at purchase of three months or less.

For purposes of the statement of cash flows, the Authority considers all highly liquid debt instruments purchased with a maturity of three months or less at the time of acquisition to be cash equivalents.

Most State agencies including the Authority participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements and certain corporate bonds.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (Continued)

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The Authority records and reports its deposits in the general deposit account at cost but reports its deposits in the special deposit accounts at fair value. Investments held in the pool are recorded at fair value. Interest earned by the Authority's special deposit accounts is posted to the Authority's account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the Authority's accumulated daily interest income receivable to the total income receivable of the pool. Reported interest income included interest earnings at the stated rate, realized gains/losses, unrealized gains/losses arising from changes in fair value on investments held by the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the Authority's percentage ownership in the pool.

Although the cash management pool included some long-term investments, it operates as a demand deposit account, therefore, for credit risk information pertaining to the cash management pool, see the deposits disclosures in *Note 2*.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less at the time of acquisition.

For the Authority's funds not held by the State Treasurer, cash equivalents include investments in short-term, highly liquid securities having a maturity at the time of purchase of three months or less.

Investments

Investments are carried at fair value. Fair value is determined by quoted market prices. Purchases and sales are accounted for on the trade date. Investment income includes interest and dividend income, realized gains/losses on investments, and unrealized changes in fair value of the investments.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary Of Significant Accounting Policies (Continued)

Loans Receivable

Loans receivable consist of mortgage loans which are carried at par. Discounts on loans are deferred and amortized using the sum-of-the-years digit method over the estimated life of ten years for single family loans and the actual life of the loan for multi-family loans and are included in interest income. All mortgage loans are insured with various mortgage insurance carriers at specified percentages of the loan amount varying from 25% to 100%. In addition, a special insurance reserve fund of 4% of the outstanding loan balance of all single-family loans with less than 100% mortgage insurance has been provided in accordance with the related bond indenture.

Management is of the opinion that the mortgage insurance coverage and the 4% insurance reserve fund are adequate to cover any potential loan losses under the Single Family Finance Programs and the Multi-family Finance Programs should they occur. Loans determined to be uncollectible and unrecoverable from mortgage insurance carriers are charged off against the special insurance reserve fund. Loans made from the Housing Trust Fund, Program Fund and General Operating Fund is not insured. No losses have occurred to date and the Authority considers the mortgaged property as adequate collateral against any potential losses.

Capital Assets

Capital assets are recorded at cost at the date of acquisition. The Authority follows capitalization guidelines established by the State of South Carolina. The Authority capitalizes furniture and equipment with a unit value in excess of \$5,000 and a useful life in excess of two years. Routine repairs and maintenance are charged to operating expenses in the year in which the expense was incurred.

Depreciation is computed using the straight-line method over estimated useful lives of ten years for furniture and equipment and five years for software.

Mortgage Escrows

Under provisions of certain mortgage loan agreements, the Authority is responsible for collecting deposits from homeowners for payment of property taxes and insurance.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary Of Significant Accounting Policies (Continued)

Compensated Absences

Generally, all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave. The compensated absences liability includes accrued annual leave earned for which the employees are entitled to paid time off or payment at termination. The Authority calculates the compensated absences liability based on recorded balances of unused leave, for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is reported in accounts payable and accrued expenses in the general operating fund.

Rebatable Arbitrage

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the "excess" earnings to the federal government under certain circumstances, if they issue no more than \$5 million in total of all such debt in a calendar year and if they meet specified targets for expenses of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. The federal government only requires arbitrage be calculated, reported and paid every five years or at maturity of the debt, whichever is earlier. However, the potential liability is calculated annually for financial reporting purposes. A reserve fund is established to liquidate the liability when determined. The Authority incurred and paid \$21,435 arbitrage expense for the year ended June 30, 2004, which was recorded in operating expenses in the Proprietary Funds under other expenses.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary of Significant Accounting Policies (Continued)

Budget Policy

The appropriation as enacted by the General Assembly becomes the legal operating budget for the Authority. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total funds. The Total Funds column in the Appropriation Act for each individual budgetary unit authorizes expenditures from all budgeted resources. A revenue budget is not adopted for individual budgetary units. The General Assembly enacts the budget through passage of line-item appropriations by program within budgetary unit within budgetary fund category, State General Fund or other budgeted funds. Budgetary control is maintained at the line-item level of the budgetary entity. Agencies may process disbursement vouchers in the State's budgetary accounting system only if enough cash and appropriation authorization exist.

Operating and Non-Operating Revenue and Expenses

The Authority distinguishes operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and delivering goods in connection with proprietary fund's principal ongoing operations. The Authority's primary operating revenue are from interest and other charges on loans. Operating expenses include the Authority's administrative expenses and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

1. Summary Of Significant Accounting Policies (Continued)

Net Assets

Net assets are classified and presented in three components:

Invested in capital assets - Consists of capital assets including restricted capital assets, net of accumulated depreciation and amortization, and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted - Consists of assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributions, or laws or regulations of other governments; or (2) law through constitutional provisions or enabling legislation.

Unrestricted - All other assets that do not meet the definition of "restricted" or "invested in capital assets."

When both restricted and unrestricted resources are available for use, it is the Authority's policy to use restricted resources first, and then unrestricted resources as they are needed.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts of assets, liabilities, revenue and expenses and affect disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of revenue and expenses during the reporting period. Actual results could differ from those estimates.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

2. Deposits and Investments

All deposits and investments of the Authority are under the control of the State Treasurer who, by law, has sole authority for investing state funds. Certain of the agency's deposits and investments are deposited and/or invested with or managed by financial institutions with the approval of the State Treasurer's Office.

The Authority classifies deposits and investments as either deposits held by State Treasurer, investments held by State Treasurer, other deposits and other investments. The following schedule reconciles deposits and investments within the footnotes to the financial statements amounts:

Financial Statements		Footnotes	
Current assets:		Deposits:	
Cash and cash equivalents:		Deposits held by State	
Unrestricted	\$ 28,643,674	Treasurer	\$ 28,997,535
Restricted	29,317,540	Other Deposits	22,199,893
		Total deposits	<u>51,197,428</u>
Non-current assets:		Investments:	
Cash and cash equivalents		Treasurer	599,794
Restricted	183,693,707	Other Investments	<u>194,455,403</u>
Investments:		Total investments	<u>195,055,197</u>
Unrestricted	599,794		
Restricted	<u>3,997,910</u>		
Total	<u>\$ 246,252,625</u>	Total	<u>\$ 246,252,625</u>

Deposits Held by State Treasurer

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

2. Deposits and Investments (Continued)

Other Deposits

The Authority's other deposits are categorized to give an indication of the level of risk assumed by the Authority at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that an entity will not be able to recover deposits if the depository financial institution fails or to recover the value of collateral securities that are in the possession of an outside party if the counterparty to the deposit transaction fails. Category 1 includes deposits that are insured or collateralized with securities held by the Authority or by its agent in the Authority's name. Category 2 includes deposits collateralized with securities held by the pledging financial institution's trust department or agent in the Authority's name. Category 3 includes uninsured and uncollateralized deposits. The Authority's other deposits are categorized as follows:

	<u>Bank Balance</u>	<u>Reported Amount</u>
Category 1	\$ 8,795,535	\$ 8,426,680
Category 3	<u>13,728,298</u>	<u>13,773,213</u>
Total other deposits	<u><u>\$ 22,523,833</u></u>	<u><u>\$ 22,199,893</u></u>

The highest balance during the year ended June 30, 2004 in Category 3 was approximately \$13,773,213.

Investments Held by State Treasurer

The amounts classified as "Investments Held by State Treasurer" in the financial statements totaled \$599,794 and are comprised of investments held for the Authority and the State of South Carolina which are legally restricted and earnings thereon become revenue of the specific fund from which the investment was made.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

2. Deposits and Investments (Continued)

Legally authorized investments vary by fund, but generally they include obligations of the United States and its agencies, obligations of the State of South Carolina and its political subdivisions, collateralized or federally insured certificates of deposit, certain rated obligations of corporations within the United States, and collateralized repurchase agreements. "Investments Held by State Treasurer" are stated at fair value. Purchases and sales are accounted for on the trade date. Interest earnings are allocated based on the percentage of the Department's accumulated daily income receivable to the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-ended based on the Department's percentage ownership in the pool.

All of the State Treasurer's investments are fully insured or registered or are investments for which the securities are held by the State or its agent in the State's name (Risk Category 1 as defined below). Information pertaining to the reported amounts, fair values, and credit risk of State Treasurer investments as of the balance sheet date is disclosed for each type investment in the Comprehensive Annual Financial Report of the State of South Carolina for the year ended June 30, 2004. However, information pertaining to the credit risk for investments of an individual agency, department, or institution is not available.

Investments Held by State Treasurer are stated at fair value. Purchases and sales are accounted for on the trade date. Interest earnings are allocated based on the percentage of the Department's accumulated daily income receivable to the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-ended based on the Department's percentage ownership in the pool.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

2. Deposits and Investments (Continued)

The securities held by the State Treasurer for the Authority at June 30, 2004 follows:

U.S. Treasury Bond, at fair value	<u>\$ 599,794</u>
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This is the only type of security held by the State Treasurer during the year.

Other Investments

The Authority has investments in repurchase agreements collateralized by U.S. Government securities and in U.S. Treasury obligations. These investments are generally of the same type as authorized for the State of South Carolina.

All of the "Other Investments" are stated at fair value. Purchases and sales are accounted for on the trade date. Unrealized gains/losses on investments have been recorded as investment income. Realized gains/losses on securities transactions are recorded on the accrual basis as investment income. Earnings are recorded as earned by the Authority. Investments with banks include legally authorized investments that vary by fund, but generally include obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposits, collateralized repurchase agreements and certain obligations of United States corporations

The Authority's investments are categorized to give an indication of the level of risk assumed by the entity at year-end. The credit risk categories are concerned with custodial credit risk, which is the risk that a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment transaction fails. There are three categories of credit risk. Category 1 includes investments that are insured or registered or for which the securities are held by the entity or its agent in the Authority's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Authority's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer or by its trust department or agent but not in the Authority's name. All investments are in Category 1.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

2. Deposits and Investments (Continued)

A summary of these investments, which are, reported at fair value at June 30, 2004 follows:

Repurchase agreements, collateralized by U. S. Government securities	\$ 190,407,906
U.S. Government obligations	881,000
U.S. Government Agency obligations	3,766,291
	<hr/>
Total assets	<u><u>\$ 195,055,197</u></u>

Restricted Deposits and Investments

Under provisions of applicable debt indentures, the Authority is required to restrict sufficient assets with an independent trustee (Bank of New York) in the single family and multi-family program funds to meet reserve requirements in order to pay the debt service on bonds. The required and actual reserve amounts for each program at June 30, 2004 are as follows:

	<u>Reserve Requirements</u>	<u>Actual Funding</u>	<u>Over (Short)</u>
Single Family Mortgage Reserve Funds-1998	\$ 3,209,250	\$ 3,209,250	\$ -
Home Ownership Reserve Funds			
Bond Reserve	309,900	648,700	338,800
Special Insurance Reserve H01987A, H01988A, H09188C, H01988C2, H01989A, H01990A, H01990C, H01991A, H01991B, H01994A,	277,346	1,199,241	921,895
Total Home Ownership	<hr/> 587,246	<hr/> 1,847,941	<hr/> 1,260,695
Mortgage Revenue Bond Reserve Funds	<hr/> 6,242,700	<hr/> 8,338,574	<hr/> 2,095,874
Multi-Family 1992A&B Mortgage Reserve Funds	<hr/> 231,619	<hr/> 231,619	<hr/> -
Totals	<u><u>\$ 10,270,815</u></u>	<u><u>\$ 13,627,384</u></u>	<u><u>\$ 3,356,569</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

3. Loans Receivable

Loans receivable, net of unamortized discounts, consist of the following:

Governmental Funds

Housing Trust Fund notes maturing on various dates
2012-2032 plus interest ranging from 1%-5% per
payable in monthly installments of principal and interest,
as provided in the notes.

\$ 7,278,712

Total governmental funds

\$ 7,278,712

Proprietary Funds

General Operating Fund notes maturing in various dates
from 2002-2032 plus interest ranging from 0%-8% per
annum, payable in installments of principal and interest
as provided in the notes.

\$ 22,795,124

Single Family Finance Programs notes maturing on dates
from 2002-2032 plus interest ranging from 4%-12.25% per
annum, payable in monthly installments of principal and
interest.

476,896,653

Multi-family Finance Programs notes maturing on various
dates from 2022-2025 plus interest at 12% per annum;
payable in monthly installments of principal and interest,
as provided in the notes.

15,300,105

Program Fund notes maturing on various dates from 2002
to 2011 plus interest ranging from 0% - 8% per annum;
payable in installments of principal and interest as provided
in the notes.

7,216,852

Total proprietary funds

\$ 522,208,734

Discounts earned and included in interest and other charges on loans amounted to \$4,331 for the Single Family Finance Programs.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

4. Capital Assets

Capital asset activity for the year ended June 30, 2004 was as follows:

	Beginning Balances June 30, 2003	Increases	Decreases	Ending Balances June 30, 2004
Equipment and furniture	\$ 308,673	\$ 25,938	\$ (7,205)	\$ 341,816
Accumulated depreciation	(235,348)	(34,910)	8,058	(278,316)
Capital assets, net of accumulated depreciation	<u>\$ 73,325</u>	<u>\$ (8,972)</u>	<u>\$ 853</u>	<u>\$ 63,500</u>

5. Changes in Long-Term Liabilities

Long-term liabilities activity for the year ended June 30, 2004 were as follows:

	Beginning Balances June 30, 2003	Additions	Reductions	Ending Balances June 30, 2004	Due within One Year
Bonds payable	\$ 558,105,000	\$ 50,000,000	\$ 95,160,000	\$ 512,945,000	\$ 7,910,000
Unamortized premiums and discounts	429,371	-	(175,180)	604,551	-
Deferred amount on refunding	(2,801,278)	(246,552)	(194,027)	(2,853,803)	-
Total bonds payable	555,733,093	49,753,448	94,790,793	510,695,748	7,910,000
Accrued compensated absences	572,918	420,057	360,070	632,905	314,307
Totals	<u>\$ 556,306,011</u>	<u>\$ 50,173,505</u>	<u>\$ 95,150,863</u>	<u>\$ 511,328,653</u>	<u>\$ 8,224,307</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Bonds Payable

At June 30, 2004, bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refunding of debt, consisted of the following:

	<u>Date Issued</u>	<u>Issue Amount</u>	<u>Outstanding Balance</u>
Single Family Mortgage Revenue Bonds 1998 (4.95% to 5.275%) due 2018-2036	09/11/98	\$ 106,975,000	\$ 106,975,000
Plus, unamortized premium			1,193,533
			<u>108,168,533</u>
1994A (5.45% to 6.375%) due 2002-2016	05/01/94	25,000,000	6,890,000
Less, unamortized discounts			(48,754)
			<u>6,841,246</u>
Mortgage Revenue Bonds			
1994A (5.375% to 6.75%) due 2002-2026	10/20/94	30,000,000	10,950,000
1995A (5.45% to 6.70%) due 2002-2027	03/01/95	25,000,000	11,355,000
1996A (5.00% to 6.35%) due 2002-2028	05/01/96	25,000,000	11,135,000
1997A (4.65% to 5.9%) due 2002-2029	06/01/97	30,000,000	20,080,000
1999A (3.90% to 5.40%) due 2002-2030	12/23/98	37,700,000	29,215,000
1999B (5.10% to 8.30%) due 2002-2030	11/01/99	139,910,000	93,705,000
2000A (5.40% to 6.40%) due 2003-2032	06/01/00	121,435,000	64,755,000
2001A (3.75% to 5.50%) due 2004-2033	08/01/01	63,455,000	57,530,000
2002A (2.20% to 4.95%) due 2005-2034	10/16/02	39,500,000	39,500,000
2003A (1.60% to 5.45%) due 2005-2034	09/10/03	50,000,000	50,000,000
			<u>388,225,000</u>
Less: Unamortized discounts			(433,311)
Unamortized deferred losses on refundings on debt			(2,853,803)
			<u>384,937,886</u>
Multi-family Residential Revenue Bonds			
1992A (3.50% to 6.875%) due 2002-2024	05/21/92	19,625,000	10,855,000
Less, unamortized discounts			(106,917)
			<u>10,748,083</u>
Total bonds payable, including unamortized premiums and net of unamortized discounts and deferred losses on refundings of debt			<u><u>\$ 510,695,748</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Bonds Payable (Continued)

Amounts including interest required to complete payment of the bond obligation as of June 30, 2004 are as follows:

Year Ending	Principal	Interest	Totals
2005	\$ 7,910,000	\$ 28,104,337	\$ 36,014,337
2006	9,285,000	27,696,753	36,981,753
2007	9,960,000	27,235,405	37,195,405
2008	10,385,000	26,737,656	37,122,656
2009	11,015,000	26,202,056	37,217,056
2009-2014	62,910,000	121,476,662	184,386,662
2014-2019	85,145,000	100,913,546	186,058,546
2019-2024	103,990,000	74,158,704	178,148,704
2024-2029	107,000,000	43,586,015	150,586,015
2029-2034	87,600,000	15,226,589	102,826,589
2034-2039	17,745,000	853,723	18,598,723
Total	<u>\$ 512,945,000</u>	<u>\$ 492,191,446</u>	<u>\$ 1,005,136,446</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Bonds Payable (Continued)

The Authority has the option to redeem most of its bonds prior to maturity on any interest payment date, or on the first of any month, as specified under each bond issue, plus accrued interest to the date of redemption. Below is a listing of the Single Family Finance Programs bonds the Authority redeemed prior to their maturity during the fiscal year ended June 30, 2004:

Single Family Finance Programs:

Home-ownership Mortgage Revenue

Series 1994 A	\$ 2,955,000
	<u>2,955,000</u>

Mortgage Revenue Bonds

Series 1994 A	2,105,000
Series 1995 A	2,450,000
Series 1996 A	2,505,000
Series 1997 A	3,065,000
Series 1999 A	2,925,000
Series 1999 B	13,975,000
Series 2000 A	14,000,000
Series 2001 A	4,285,000
Series 2002A	500,000
	<u>45,810,000</u>

Multi-family Residential Revenue Bonds

Series 1992 A	5,485,000
	<u>5,485,000</u>

Totals	<u><u>\$ 54,250,000</u></u>
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SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

6. Bonds Payable (Continued)

Bonds, redeemed at par, resulted in unamortized bond discounts and bond issuance costs being written off and reflected as a loss on early extinguishments of debt for the year ended June 30, 2004 as follows:

	<u>Discounts</u>	<u>Issuance Costs</u>	<u>Total</u>
Single Family Finance Program bonds	\$ 105,819	\$ 340,684	\$ 446,503
Multi-family Residential Revenue bonds	56,418	61,418	117,836
Totals	<u>\$ 162,237</u>	<u>\$ 402,102</u>	<u>\$ 564,339</u>

Amortization of bond discounts for the year ended June 30, 2004 that were included in bond interest expense in the proprietary fund follow:

Single Family Mortgage Revenue	\$ 6,887
Single Family Home-ownership Mortgage Revenue	32,598
Multi-family Residential Revenue	<u>67,734</u>
	<u>\$ 107,219</u>

Bond premium amortized for the year ended June 30, 2004 and attributable to the Single Family Finance Programs Fund bonds totaled \$38,511 and was reported as a single item revenue amount in the proprietary fund.

Amortization of deferred losses on refundings of debt of \$194,027 for the year ended June 30, 2004 and attributable to the Single Family Finance Programs Fund bonds was included in bond interest expense in the proprietary fund.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

7. Leases

At June 30, 2004, the Authority was obligated under various operating leases with external parties for office space and office equipment having noncancelable lease terms in excess of one year.

The leases of the Authority's office space expire in July 2004 and September 2004 and are payable monthly. The Authority is responsible for the pro rata share of increases in the building's operating costs over the preceding rental year limited to no more than 5% increase per year.

Office equipment leases expire in various fiscal years from 2004 through 2008.

Future minimum annual lease payments under non-cancelable operating leases with remaining terms in excess of one year follow:

<u>Year Ending June 30,</u>	
2005	\$ 330,580
2006	259,630
2007	261,890
2008	267,101
2009	273,803
2010	68,951
	<u>\$ 1,461,955</u>

The Authority also leases motor vehicles from the State Budget and Control Board, which can be cancelled with 30 days notice.

The Authority incurred rental expense of approximately \$673,523 under the aforementioned leases for the fiscal year ended June 30, 2004.

The above information given is for existing leases only and is not a forecast of future rental expense. In the normal course of business, operating leases are generally renewed or replaced with other leases.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

7. Leases (Continued)

In addition to the above leases, the Authority has entered into four noncancellable copier leases on a "pay per copy" plan. The leases expire in fiscal years ending June 30, 2003 to 2006. Approximately \$43,271 was expended under these leases during the fiscal year ended June 30, 2004.

8. Transactions With State Entities

These financial statements include the following related party transactions between the Authority and the State of South Carolina and various State agencies:

- The South Carolina Department of Revenue collects documentary stamp taxes and remits \$.50 of every \$1.30 collected to the Authority for the Housing Trust Fund.
- Services received at no cost from State agencies include maintenance of certain accounting records and payroll and disbursement processing from the Comptroller General; check preparation, banking and investment functions from the State Treasurer; and legal services from the Attorney General.
- Services provided at no cost from various divisions of the State Budget and Control Board include retirement plan administration, grant services, insurance plan administration, personnel management, review, and approval of certain budget amendments, procurement services, and other centralized functions.
- Financial transactions include payments to divisions of the State Budget and Control Board for vehicle rental, insurance coverage, office supplies, printing, telephone, and interagency mail. Payments were also made for the workers' compensation insurance coverage and unemployment compensation. The amounts applicable to 2004 expenditures were not readily available.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

9. Fund Transfers

Fund transfers to and from other funds, which are allowable and made in accordance with the terms of the respective bond indentures, during the year ended June 30, 2004 follow:

- \$3,829,046 from the Single Family Finance Program to the General Operating fund to pay for operating expenses.
- \$14,761 from the General Operating Fund to the Program Fund to pay for administrative fees.
- \$276,275 from the Multi-family Finance Program to the Program Fund for the purchase of new loans.
- \$28,523 from the General Operating Fund to the State Housing Corporation for forgiveness of debt.
- \$186 from the Program Fund to the State Housing Corporation for forgiveness of debt.

10. Risk Management

The Authority is exposed to various risks of loss and maintains State or commercial insurance coverage for all of these risks except business interruption insurance. The Authority has arranged for backup facilities for its data processing needs. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. Settled claims have not exceeded this coverage in any of the past three years. The Authority pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accordance with insurance policy and benefit program limits except for deductibles.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

10. Risk Management (Continued)

Several State funds accumulate assets and the State assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission)
2. Claims of covered employees for workers' compensation benefits for job-related illnesses or injuries (State Accident Fund)
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services)
4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services)

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The Authority and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets
2. Torts

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property and equipment. The ISF's rates are determined actuarially.

The Authority obtains coverage through a commercial insurer for employee fidelity bond insurance for certain of its supervisory/management employees for losses arising from theft or misappropriation.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

10. Risk Management (Continued)

The Authority has recorded insurance premium expenditures in the general and administrative expense category of the general operating fund.

11. Conduit Debt

From time to time, the Authority has issued bonds to provide mortgages for the citizens of South Carolina, for multi-housing. As explained in *Note 1*, these bonds are special limited obligations of the Authority, payable solely from and secured by mortgages to be received from mortgage loans between the Authority and various mortgagees. The bonds do not constitute a debt or pledge of the faith and credit of the Authority or the State, and accordingly, have not been reported in the accompanying financial statements.

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
Fiscal Year 1985 (84/85)			
10/84	Conduit Mortgage Loan Notes (Cypress General Partnership)	\$ 1,075,000	\$ -
06/85	Conduit Mortgage Loan Notes (Breckenridge Apt. Project)	3,000,000	527,463
12/85	Multi-family Guaranteed Mortgage Revenue Bonds, (Paces Run Apartments/CTS Parklane Project)	12,050,000	12,050,000
12/85	Conduit Mortgage Loan Notes (Crossroads Apartments)	2,150,000	1,246,738
Fiscal Year 1987 (86/87)			
07/88	Multi-family Housing Revenue Bonds (Paces Landing Series 1988)	8,750,000	8,750,000
	Multi-family Housing Revenue Refunding Bonds (Oakridge Project) 276	9,150,000	6,300,000
Fiscal Year 1989 (88/89)			
12/88	Multi-family Housing Revenue Refunding Bonds (Waverly Place)	8,400,000	4,300,000
07/89	(Variable Rate Housing Revenue Refund Bonds) (Patriot Place)	2,200,000	-

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

11. Conduit Debt (Continued)

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
	Fiscal Year 1991 (90/91)		
09/90	Multi-family Housing Revenue Bonds 1990 Series A (Westbridge)	2,850,000	2,560,000
	Fiscal Year 1992 (91/92)		
10/91	Multi-family Housing Mortgage Revenue Bonds (Plum Chase)	7,000,000	6,900,000
	Fiscal Year 1993 (92/93)		
06/93	Multi-family Housing Revenue Refunding Bonds (Westbury Place)	5,510,000	4,710,000
06/93	Multi-family Housing Revenue Refunding Bonds (Windsor Shores)	5,085,000	3,265,000
			-
	Fiscal Year 1994 (93/94)		
06/94	Multi-family Housing Revenue Refunding Bonds (North Bluff)	3,940,000	
06/94	Multi-family Housing Mortgage Revenue Bonds (United-Dominion-Forestbrook Apts. Project)	5,000,000	-
	(Bent Tree Apts./Richland Oxford)		
06/95	Multi-family Housing Mortgage Revenue Bonds (Union-Dominion-Hunting Ridge Apts. Project)	3,265,000	3,265,000
06/95	Rental Housing Revenue Refunding Bonds (Bryton Point Apts. Project)	6,945,000	6,115,000
	Fiscal Year 1996 (95/96)		
11/95	Multi-family Housing Revenue Refunding Bonds (Runaway Bay)	10,300,000	8,680,000
11/95	Mortgage Revenue Refunding Bonds (Heritage)	4,525,000	4,120,000
	Fiscal Year 1998 (97/98)		
08/97	Multi-family Housing Revenue Refunding Bonds (Oakfield Apts.)	3,250,000	2,844,000
04/98	Multi-family Housing Revenue Bonds (Three Rivers and Edenwood Apts.)	9,535,000	-

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

11. Conduit Debt (Continued)

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
	Fiscal Year 1999 (98/99)		
05/99	Multi-family Rental Housing Revenue Bonds (Ashley Apts.)	4,300,000	4,105,000
	Fiscal Year 2000 (99/00)		
07/99	Multi-family Housing Revenue Bonds (CTS Rock Hill Project)	9,145,000	9,145,000
	Fiscal Year 2001 (00/01)		
08/00	Multi-family Revenue Refunding Bonds (Paces Watch Apts)	10,600,000	10,600,000
10/00	Multi-family Rental Housing Revenue Bonds (City Heights Apts.)	6,750,000	6,635,000
10/00	Multi-family Rental Housing Revenue Bonds (Spartanburg Terrace Apts.)	4,750,000	4,670,000
10/00	Multi-family Housing Revenue Bonds (Piedmont Manor Apts.)	6,250,000	6,135,000
10/00	Multi-family Rental Housing Revenue Bonds (Bayside Apts.)	9,500,000	9,500,000
12/00	Multi-family Rental Housing Revenue Bonds (Bent Tree Apts./Richland Oxford)	11,130,000	11,130,000
02/01	Multi-family Rental Housing Revenue Bonds (Ashton & Stoney Creek Apts.)	16,600,000	16,300,000
06/01	Multi-family Housing Revenue Bonds (Fairway Apts. Project)	7,735,000	7,735,000
06/01	Multi-family Housing Revenue Refunding Bonds (East Ridge Project)	8,700,000	8,700,000
06/01	Multi-family Rental Housing Revenue Refunding Bonds (Martin's Creek Project)	7,300,000	7,300,000
06/01	Multi-family Rental Housing Revenue Bonds		

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

11. Conduit Debt (Continued)

Issue Date	Bond/Note Title	Original Issue Amount	Amount Outstanding
Fiscal Year 2002 (01/02)			
08/01	Multi-family Housing Revenue Refunding Bonds (North Slope Apts./Greenville Oxford Project)	4,955,000	4,955,000
08/01	Multi-family Housing Revenue Refunding Bonds (Springhouse Apts./Charleston Oxford Project)	10,180,000	10,180,000
08/01	Multi-family Housing Revenue Refunding Bonds (Hunt Club Apts./Spartanburg Oxford Project)	9,415,000	9,415,000
08/01	Multi-family Rental Housing Revenue Bonds (Arrington Place Apartments)	2,680,000	2,680,000
12/01	Multi-family Rental Housing Revenue Bonds (Cedarwood Apartments-Columbia, SC)	8,750,000	8,750,000
12/01	Multi-family Rental Housing Revenue Bonds (Belton Woods Apts.)	5,795,000	5,690,000
Fiscal Year 2003 (02/03)			
12/02	Multi-family Rental Housing Revenue Bonds (Poplar Square Apartments)	2,960,000	2,924,919
12/02	Multi-family Rental Housing Revenue Bonds (Spring Grove Apartments Project)	7,410,000	7,410,000
Fiscal Year 2004 (03/04)			
12/03	Multi-family Rental Housing Revenue Bonds (Rocky Creek Apartments Project)	10,750,000	10,750,000
04/04	Multi-family Rental Housing Revenue Bonds (Beverly Apartments Project)	3,010,000	3,010,000
04/04	Multi-family Rental Housing Revenue Bonds (Hillandale Apartments Project)	6,660,000	6,660,000
06/04	Multi-family Rental Housing Revenue Bonds (Greenville Arms Apartments Project)	4,265,000	4,265,000
Total		<u>\$ 293,570,000</u>	<u>\$ 254,278,120</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

12. Pension Plan

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the Authority are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally, all state employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years of service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. (This requirement does not apply if the disability is a result of a job related injury.) A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

12. Pension Plan (Continued)

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not make SCRS contributions, do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2003 the employer contribution rate became 10.85 percent, which included a 3.30 percent surcharge to fund retiree health and dental insurance coverage. The Authority's actual contributions to the SCRS for the most recent fiscal years ended June 30, 2004, 2003, and 2002 were approximately \$363,000, \$363,000 and \$342,000 respectively, and equaled the required contributions of 7.55% (excluding the surcharge) for each year. Also, the Authority paid employer group life insurance contributions of approximately \$7,200 for the current fiscal year at the rate of .15% of compensation.

The amounts paid by the Authority for pension and group-life benefits are reported as employer contribution expenses within the operating expense category and are included in general and administrative expenses.

Article X, Section 16 of the South Carolina Constitution requires that all State-operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefit and employer/employee contributions for each retirement system. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

12. Pension Plan (Continued)

The Systems do not make separate measurements of assets and pension benefit obligations for individual employers. Under Title 9 of the South Carolina Code of Laws, the Authority's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Authority's liability under the pension plans is limited to the amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Authority recognizes no contingent liability for unfunded costs associated with participation in the plans. At retirement, employees participating in the SCRS may receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

13. Post Employment And Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriations Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Authority are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date.

Generally, those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

These benefits are provided through annual appropriations by the General Assembly to the Authority for its active employees and to the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable sources of the Authority for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

13. Post Employment And Other Employee Benefits (Continued)

The Authority recorded employer contributions expenditures within the applicable operating expense categories for these insurance benefits for active employees of approximately \$348,000 for the year ended June 30, 2004. As discussed in *Note 12*, the Authority paid approximately \$159,000 applicable to the 3.30 percent surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to the Authority's retirees is not available. By State law, the Authority has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

14. Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Authority have elected to participate. The multiple-employer plans, created under Internal Revenue Code Section 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employees. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

The State has authorized deferred compensation matching contributions which are funded from various funding sources based on the same percentages used for employees' salaries. The Authority did not make any contributions for the fiscal year ended June 30, 2004.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

15. Retirement Incentive

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows active members of the South Carolina Retirement System who are eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for a program period of up to five years. The length of the program period must be specified by the employee prior to retirement. Each participant is entitled to be paid for up to 45 days of accumulated unused annual vacation leave upon retirement and again at the end of the program period for annual vacation leave earned during the program period.

The Authority did not incur any expenses under the TERI Programs for the year ended June 30, 2004.

16. Subsequent Events

In July 2004, the Authority issued Series 2004 A-1 and A-2 Mortgage Revenue Bonds totaling \$100,000,000 with maturities in fiscal years 2005 - 2035 and interest rates of 1.65% - 5.50% per annum in its Single Family Finance Programs proprietary fund.

17. Commitments:

The Authority has financial award commitments outstanding totaling approximately \$7,635,379 as of June 30, 2004 under the Housing Trust fund program.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

18. Prior Period Adjustments

In prior fiscal years, the General Operating Fund expensed drawdowns of funds rather than booking the drawdown as loans receivable. New loans were being booked when the loans actually closed which covered more than one fiscal year of loan drawdowns. The Authority has restated the various account balances as follows for the aforementioned reason.

	<u>Proprietary Fund General Operating</u>
Net assets, July 1, 2003, as previously reported	\$ 223,949,425
Correction of errors:	
Capitalization of loan amounts previously expensed	<u>2,032,586</u>
Net assets, July 1, 2003, as restated	<u><u>\$ 225,982,011</u></u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

19. Segment Financial Information

Segment financial information as required by the bond trustees for each indenture of the Authority's Single Family Finance Programs as of and for the year ended June 30, 2004 is presented on the following pages.

Statement of Net Assets - June 30, 2004				
	Single Family	Home Ownership	Mortgage Revenue	Totals
Assets				
Current assets:				
Restricted assets:				
Cash and cash equivalents	\$ 9,059,990	\$ 585,987	\$ 18,395,345	\$ 28,041,322
Loans receivable, net of unamortized discounts	12,132,382	706,609	27,927,591	40,766,582
Total current assets	21,192,372	1,292,596	46,322,936	68,807,904
Non-current assets:				
Restricted assets:				
Cash and cash equivalents	76,205,240	2,526,738	103,519,708	182,251,686
Investments	-	2,659,620	1,106,671	3,766,291
Loans receivable, net of unamortized discounts	131,825,706	15,154,187	289,150,178	436,130,071
Accrued interest receivable:				
Deposits and investments	46,896	64,310	430,731	541,937
Loans	1,201,344	162,202	2,824,700	4,188,246
Unamortized bond issuance costs	922,545	9,161	3,024,762	3,956,468
Total noncurrent assets	210,201,731	20,576,218	400,056,750	630,834,699
Total assets	231,394,103	21,868,814	446,379,686	699,642,603

(CONTINUED)

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

19. Segment Financial Information (Continued)

Statement of Net Assets - June 30, 2004				
	Single Family	Home Ownership	Mortgage Revenue	Totals
Liabilities				
Current liabilities:				
Interest on loans				
Liabilities payable from restricted assets:				
Bonds payable	-	360,000	7,275,000	7,635,000
Accrued interest payable on bonds	2,794,875	216,548	10,712,657	13,724,080
Mortgage escrows	6,208,132	-	-	6,208,132
Other	56,983	9,439	407,688	474,110
Total current liabilities	9,059,990	585,987	18,395,345	28,041,322
Non-current liabilities:				
Bonds payable, net of current portion and unamortized premiums and discounts and deferred losses on refundings	108,168,533	6,481,246	377,662,886	492,312,665
Total noncurrent liabilities	108,168,533	6,481,246	377,662,886	492,312,665
Total Liabilities	117,228,523	7,067,233	396,058,231	520,353,987
Net Assets				
Restricted for:				
Debt service	110,956,330	13,634,781	43,632,970	168,224,081
Debt service reserves	3,209,250	1,166,800	6,688,485	11,064,535
Total net assets	\$ 114,165,580	\$ 14,801,581	\$ 50,321,455	\$ 179,288,616

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

19. Segment Financial Information (Continued)

Statement of Revenue, Expenses, and Changes in Net Assets - June 30, 2004

	Single Family	Home Ownership	Mortgage Revenue	Totals
Operating revenue:				
Pledged revenue:				
Interest and other charges on loans	\$ 8,282,669	\$ 1,470,776	\$ 20,686,148	\$ 30,439,593
Income on deposits and investments	602,740	(36,193)	5,525,523	6,092,070
Other revenue:				
Bond premium amortization	38,511	-	17,255	55,766
Total operating revenue	<u>8,923,920</u>	<u>1,434,583</u>	<u>26,228,926</u>	<u>36,587,429</u>
Operating expenses				
Bond interest	5,589,750	482,571	22,417,403	28,489,724
Program	347,312	37,444	914,625	1,299,381
Bond issuance cost amortization	40,954	2,691	227,638	271,283
Other expenses	5,200	6,052	205,102	216,354
Total operating expenses	<u>5,983,216</u>	<u>528,758</u>	<u>23,764,768</u>	<u>30,276,742</u>
Operating income (loss)	<u>2,940,704</u>	<u>905,825</u>	<u>2,464,158</u>	<u>6,310,687</u>
Income Before Operating Transfers and Extraordinary Items	<u>2,940,704</u>	<u>905,825</u>	<u>2,464,158</u>	<u>6,310,687</u>
Transfers				
Transfers among programs	(4,120,947)	(3,148,626)	3,440,527	(3,829,046)
Transfers to (from) other programs-	-	-	-	-
Total transfers	<u>(4,120,947)</u>	<u>(3,148,626)</u>	<u>3,440,527</u>	<u>(3,829,046)</u>
Income (loss) before extraordinary item	(1,180,243)	(2,242,801)	5,904,685	2,481,641
Extraordinary item:				
Loss on early extinguishment of debt	-	(24,887)	(421,616)	(446,503)
Increase (decrease) in net assets	(1,180,243)	(2,267,688)	5,483,069	2,035,138
Net assets, at beginning of year	115,345,823	17,069,269	44,838,386	177,253,478
Net assets, at end of year	<u>\$ 114,165,580</u>	<u>\$ 14,801,581</u>	<u>\$ 50,321,455</u>	<u>\$ 179,288,616</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

19. Segment Financial Information (Continued)

	Statement of Cash Flows - Year Ended June 30, 2004			
	Single Family	Home Ownership	Mortgage Revenue	Totals
Cash Flows From Operating Activities				
Receipt of loan payments	\$ 32,033,551	\$ 5,993,984	\$ 77,717,373	\$ 115,744,908
Purchase/origination of new loans	(26,190,160)	-	(40,743,376)	(66,933,536)
Payments to vendors	(197,863)	(33,713)	(828,289)	(1,059,865)
Net cash flows provided (used) for operating activities	5,645,528	5,960,271	36,145,708	47,751,507
Cash Flows From Noncapital Financing Activities				
Transfers from other programs	-	-	3,440,527	3,440,527
Transfers to other programs	(4,120,946)	(3,148,627)	-	(7,269,573)
Proceeds from sale of bonds	-	-	50,000,000	50,000,000
Principal payments on bonds payable	-	(485,000)	(43,050,000)	(43,535,000)
Interest payments on bonds payable	(5,589,750)	(582,259)	(22,775,563)	(28,947,572)
Payment on bond issuance costs	-	-	(574,076)	(574,076)
Early retirement of bonds payable	-	(2,955,000)	(42,855,000)	(45,810,000)
Net cash flows provided (used) for noncapital activities	(9,710,696)	(7,170,886)	(55,814,112)	(72,695,694)
Cash Flows From Investing Activities				
Income on deposits and investments	615,163	245,320	5,690,113	6,550,596
Net cash flows provided (used) for investing activities	615,163	245,320	5,690,113	6,550,596
Net increase (decrease) in cash and cash equivalents	(3,450,005)	(965,295)	(13,978,291)	(18,393,591)
Cash and cash equivalents, beginning of year	88,715,235	4,078,020	135,893,344	228,686,599
Cash and cash equivalents, end of year	<u>\$ 85,265,230</u>	<u>\$ 3,112,725</u>	<u>\$ 121,915,053</u>	<u>\$ 210,293,008</u>

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

-CONTINUED-

19. Segment Financial Information (Continued)

	Statement of Cash Flows - Year Ended June 30, 2004			
	Single Family	Home Ownership	Mortgage Revenue	Totals
Reconciliation of Net Operating Income (Loss) to Net Cash Flows Provided by (Used for) Operating Activities:				
Net operating income (loss)	\$ 2,940,704	\$ 905,825	\$ 2,464,158	\$ 6,310,687
Adjustments to reconcile net operating income (loss) to net cash flows provided by (used for) operating activities:				
Depreciation	-	-	-	-
Bond premium amortization	(38,511)	-	-	(38,511)
Bond issuance cost amortization	40,954	2,691	227,638	271,283
Bonds interest expense reclassified to non-capital financing activities	5,589,750	482,571	22,417,403	28,489,724
Income on deposits and investments reclassified to investing activities	(602,740)	36,193	(5,812,616)	(6,379,163)
Mortgage loan discounts amortization	-	(829)	(317)	(1,146)
Mortgage loan principal adjustment	10,624	-	-	10,624
Receipt of loan principal payments	23,813,929	4,501,278	57,281,195	85,596,402
Purchase/origination of new loans	(26,190,160)	-	(40,743,376)	(66,933,536)
Change in assets and liabilities:				
Increase (decrease) in accounts receivable	-	-	-	-
Increase (decrease) in accounts payable, accrued expenses and due to grantor	-	-	-	-
Increase (decrease) in mortgage escrows	109,695	-	-	109,695
Increase (decrease) in other liabilities	1,330	(1,986)	290,425	289,769
Increase (decrease) in accrued interest receivable-loans	(30,047)	34,528	21,198	25,679
Total adjustments	2,704,824	5,054,446	33,681,550	41,440,820
Net cash provided by (used for) operating activities	\$ 5,645,528	\$ 5,960,271	\$ 36,145,708	\$ 47,751,507

OTHER FINANCIAL INFORMATION

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

Federal Grantor/ Program Title	CFDA Number	Total Expenditures	Expenditures to Subrecipients
Department of Housing and Urban Development			
Section 8 - Project-Based Cluster:			
New Construction and Substantial Rehabilitation	14.182	\$ 7,618,357	\$ -
Housing Assistance Payments Program-Special allocations	14.195	75,264,628	-
Lower Income Housing Assistance Program - Moderate Rehabilitation	14.856	939,943	60,138
Total Section 8 - Project-Based Cluster:		83,822,928	60,138
Home Investment Partnership Program	14.239	10,807,176	462,791
Section 8 - Housing Choice Vouchers	14.871	11,798,670	332,378
Total Direct - Department of Housing and Urban Development		\$ 106,428,774	\$ 855,307

See accompanying notes.

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2004

Accounting Principles

The Schedule of Expenditures of Federal Awards includes the Federal grant activity of South Carolina State Housing Finance and Development Authority and has been prepared on the cash basis method of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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**Report on Compliance and Internal Control
Over Financial Reporting Based on an Audit of Financial Statements Performed
in Accordance with *Government Auditing Standards***

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

We have audited the financial statements of the South Carolina State Housing Finance and Development Authority as of and for the year ended June 30, 2004, and have issued our report thereon September 19, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance that is required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Authority's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs as item 04-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

This report is intended solely for the information and use of the Commission members, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Releach & Williamson, L.L.P.

September 19, 2004

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**Report on Compliance with Requirements Applicable to Each Major
Program and Internal Control Over
Compliance in Accordance with OMB Circular A-133**

Mr. Thomas L. Wagner, Jr., CPA
State Auditor
State of South Carolina
Columbia, South Carolina

Compliance

We have audited the compliance of South Carolina State Housing Finance and Development Authority with the types of compliance requirements described in the *US. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal programs for the year ended June 30, 2004. The Authority's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance with those requirements based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Commissioner, management, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Rebecca E. Williamson, C.C.P.

September 19, 2004

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2004

Summary of Auditors' Results:

Financial Statements:

1. An unqualified opinion dated September 19, 2004, on the financial statements of the Authority for the year ended June 30, 2004 was issued.
2. A reportable condition related to internal control over financial reporting was noted as finding 04-1.
3. No instances of non compliance which were material to the financial statements were found.

Federal Awards:

4. No reportable conditions relating to internal control over compliance resulting from the audit of the major federal award programs are reported.
5. An unqualified opinion on compliance for the major program dated September 19, 2004 was issued.
6. No instances of noncompliance which were material to the financial statements were noted.
7. The major programs of the Authority are as follows:

<u>Program</u>	<u>CFDA</u>
Section 8 Project-Based Cluster:	
New Construction and Substantial Rehabilitation	14.182
Housing Assistance Payments Program-Special Allocations	14.195
Lower Income Housing Assistance Program – Moderate Rehabilitation	14.856
Total Section 8 Project-Based Cluster	
8. The dollar threshold used to distinguish between Type A and Type B Programs was \$3,192,863.	
9. The Authority was determined to be a low-risk auditee.	

SOUTH CAROLINA STATE HOUSING FINANCE AND DEVELOPMENT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

(CONTINUED)

Financial Statement Findings:

04-1 General Operating Fund – Capitalization of Loans

Condition: Periodic drawdowns on loans should be classified as loans in process and carried as an asset in the financial statements of the Authority.

Cause: The Authority failed to capitalize drawdowns of funds loaned until the loan had closed, this was due to lack of communication between personnel authorizing the drawdowns and personnel recording loans in process.

Effect: Above-mentioned condition resulted in loan amounts being expensed in a prior fiscal year requiring a restatement of Net Assets for the year ended June 30, 2004.

Recommendation: We recommend that management put into place procedures to ensure drawdowns of loans are classified properly and provide that communication between departments be sufficient to make this possible.

Federal Awards Findings and Questioned Costs:

None.

Prior Audit Findings and Questioned Costs:

None.



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Dan J. Rawls
Chairman

Donald R. Hinson
Executive Director

October 8, 2004

Corrective Action Plan

South Carolina State Housing Finance and Development Authority submits the following corrective action plan for the year ended June 30, 2004.

Name and address of independent public accounting firm: Deloach and Williamson, LLP, 1401 Main Street, Suite 660, Columbia, SC 29201.

The findings from the June 30, 2004 schedule of findings and questioned costs are discussed below. The finding is numbered consistently with the number assigned in the schedule.

FINDINGS AND QUESTIONED COSTS FOR FINANCIAL STATEMENTS

**04-1 REPORTABLE CONDITION RELATED TO INTERNAL CONTROL OVER
FINANCIAL REPORTING**

Recommendation: Management put into place procedures to ensure drawdowns of loans are classified properly and provide that interdepartmental communication is sufficient to make this possible.

Action Taken: The originating department will notify Finance when a payment is a loan pending. A copy of the notification document will be placed in a pending file. The documentation in the pending file will be reconciled to the general ledger account for mortgages pending.

If there are questions regarding this plan, please call Rosalia Moore at (803) 734-2095.